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Message Text

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ACTION XMB-04

INFO OCT-01 EA-10 ISO-00 EB-08 TRSE-00 CIAE-00 INR-10
NSAE-00 COM-02 SSO-00 OMB-01 INRE-00 /036 W
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O R 070825Y JUL 78
FM AMEMBASSY SEOUL
TO SECSTATE WASHDC IMMEDIATE 2134
INFO AMEMBASSY TOKYO

C O N F I D E N T I A L SEOUL 5891

E.O. 11652: GDS
TAGS: EFIN, BENC, KS
SUBJECT: SEOHAE THERMAL POWER PLANT- EXIMBANK PRELIMINARY COMMITMENT

REF: (A) SEOUL 5716; (B) SEOUL 5679

1. AS FORESEEN REFTEL (A), HITACHI HAS OFFERED KECO A NEW PACKAGE PROPOSAL COVERING BOTH TURBINE GENERATORS AND STEAM GENERATION SEGMENTS PRICED BETWEEN 70 AND 80 MILLION DOLLARS. HITACHI, BY COMBINING ITS BIDS, HAS THEREBY ADJUSTED THE STEAM SIDE SUFFICIENTLY TO BRING ITS GENERATORBID INTO COMPETITION WITH THE LOW FUJI DENKI TURBINE GENERATOR BID AND IN AN OVERALL SENSE HAS IMPROVED ITS PRICE POSITION OVER BOTH GENERAL ELECTRIC (GE) AND COMBUSTION ENGINEERING (CE).

2. GE HAS NOT BEEN ABLE TO REDUCE ITS PRICE FOR TURBINE GENERATORS IN CONNECTION WITH ITS JOINT BID WITH HYUNDAI, BUT HYUNDAI HAS MADE ADJUSTMENTS WHICH BRINGS THE COMBINED BID ON THE TURBINE GENERATOR SEGMENT DOWN TO ABOUT 17 MILLION DOLLARS. NEVERTHELESS, SUM TOTAL OF U.S.-HYUNDAI PRICING NOW STANDS ABOUT $2 MILLION ABOVE HITACHI'S LATEST OFFER.

3. IF SITUATION IS AS REPORTED KECO WILL FIND ITSELF LEGALLY PROHIBITED FROM TAKING ANY BUT THE COMBINED HITACHI BID. THIS SITUATION POSES A DILEMMA FOR THE ROKG, THE U.SAM BIDDERS, CONFIDENTIAL

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US EXIMBANK, AND HYUNDAI. THE APPROVAL OF HYUNDAI INVEST-MENT IN GENERATOR AND STEAM BOILER PRODUCTION FACILITIES ON

THE BASIS OF COLLABORATION WITH GE AND CE IS BASED ON THE ASSUMPTION THAT IT WOULD RECIEVE DOMESTIC ORDERS FOR SUCH

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EQUIPMENT. KECO, OF COURSE, IS THE MONOPOLISTIC USER OF SUCH EQUIPMENT. HOWEVER, KECO, UDER PRESSURE FROM INTERNATIONAL FINANCIAL INSTITUTIONS (IFI'S) AND US EXIMBANK, IS COMMITTED TO RAISE ITS RETURN ON INVESTMENT, WHICH DICTATES THAT IT PURCHASE CAPITAL EQUIPMENT FROM THE LOWEST RESPONSIBLE BIDDER.

4. SO LONG AS JAPANESE BIDDERS OFFER DUMPING PRICES, KECO WILL BE COMPELLED TO ACCEPT THEM BECASUSE JAPANESE EQUIPMENT MEETS BIDDING SPECIFICATIONS THUS HYUNDAI CAN EXPECT TO RECEIVE NO ORDERS FOR GE GENERATION EQUIPMENT. INTERESTS OF GE AND CE IN OBTAINING A RETURN ON THEIR TECHNICAL LICENSING ARRANGEMENTS WITH HYUNDAI ARE THEREBY FRUSTRATED WHILE HYUNDAI FACES LOSSES STEMMING FROM INVESTMENT IN EQUIPMENT WHICH WILL GO UNUSED. US EXIMBANK AS CREDITOR TO HYUNDAI ON THE CHANGWON PLANT FACES NO RISK, BUT WOULD FIND ITSELF IN A SITUATION OF HAVING FINANCED A NON-PAYING PLANT. GE REPRESENTATIVES ARE STRONGLY REQUESTING EMBASSY AND USG TO ATTEMPT TO RESOLVE DILEMMA IN FAVOR OF HYUNDAI BY DEMANDING THAT ROKG FORBID KECO TO ACCEPT A DUMPING PRICE WHICH WOULD NEGATE ITS POLICY OF PROMOTING LOCALIZATION OF POWER GENERATING EQUIPMENT MANUFACTURE.

5. ACTION REQUESTED: FIRST, THAT EXIMBANK PROCEED WITH ITS INTENTION TO OFFER A FINANCIAL PACKAGE COMPETITIVE WITH THE JAPANESE EXIMBANK AND, SECONDLY, THAT DEPARTMENT INSTRUCT US ON WHETHER AND TO WAHT DEGREE WE SHOULD CHAMPION THE CAUSE OF ANTI-DUMPING IN CONNECTION WITH THIS BID.
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NNN

*** Current Handling Restrictions *** n/a
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Disposition Approved on Date:
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